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AMSOUTH

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Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. OP-1248

Dear Ms. Johnson:

Thank you for the opportunity to comment on the proposed guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices." AmSouth has carefully managed its commercial real estate both globally and by product type. We understand and share the Agencies respect for real estate when there are adverse market conditions. In general, we would suggest a less prescriptive approach allowing examiners most familiar with an institution's prowess in underwriting, portfolio management, and its effectiveness in limiting / mitigating concentration risk to determine whether those policies and processes are appropriate. Our comments follow:

Scope of Definition

The Guidance provides a definition for CRE loan exposure which does not align well with the formulas provided. The definition for CRE loan exposure and the formulas for calculating a Bank's CRE concentration levels provided are as follows:

"Exposures secured by raw land, land development and construction (including 1-4 family residential construction), multi-family property, and non-farm non-residential property where the PSOR is derived from rental income associated with that property or proceeds from sale, refinancing or permanent financing of the property." Loans to REITS and unsecured developer loans are also included.

1. Proposed Guidance:
   - Test 1 – "Total Call Report loans for construction, land development and other land (Call Report FFIEC 031 and 041, schedule RC-C item 1a) represent 100% or more of an institution's total capital."
   - Test 2 – "Total Call Report loans secured by multi-family and non-farm non-residential properties and loans for construction, land development, and other land (Call Report FFIEC 031 and 041, schedule RC-C item 1a, 1d and 1e) represent 300% or more of an institution's total capital."

Comment: We noted the following discrepancies between the definition and the formulas provided for determining these percentages and recommend clarifications.

- The Call Report numbers include loans secured by owner occupied real estate and construction-permanent loans (residential construction loans with an AmSouth pre-approved mortgage takeout). These loans would be excluded according to the definition as their PSOR is not derived from income generated from the property or its sale.
- The Call Report numbers referenced do not include REITS and unsecured builder lines, which have to be added according to the definition.

2. Proposed Guidance: "The guidance may also be applied on a case by case basis to any institution that has a sharp increase in CRE lending over a short period of time or has a significant concentration in CRE loans secured by a particular property type."

Comment: The guidance does not define what would constitute a sharp increase, a short period of time or a significant percentage. Additional clarification is needed.

Board & Management Oversight
The proposed guidance states that "the Board of Directors has ultimate responsibility for the level of risk taken by its institution." This is a long established principal with which we agree. Our concern is that there are instances where the Board is expected to exercise detailed oversight which is more typical of that exercised by Management. The following are specific examples:

Proposed Guidance: "Directors should use this information to provide clear guidance to management regarding the level of CRE exposures acceptable to the institution."

Comment: The Board is already required to approve CRE concentration limits, policy, etc. If that is what "clear guidance" means, we agree but recommend dropping the term as it is confusing.

Proposed Guidance: "The Board also has the responsibility to ensure that Senior Management implements the procedures and controls necessary to comply with adopted policies."

Comment: Traditionally, the Board has monitored Management's implementation of activities throughout the company by a combination of reports, exception reports (Reg H), Credit Review, Audit, and other Risk Management units within the bank. The wording of this sentence implies hands on management that sounds duplicative of Management's role and not practical in a large organization. We would suggest the sentence be changed to read as follows: "The Board should continue to oversee Management's implementation of procedures and controls required under Board approved policies. This would be typically accomplished through a combination of reports including those issued by Credit Review. A more hands on approach could be appropriate for a smaller community bank."

Portfolio Risk Management – Stress Testing
Proposed Guidance: "Institutions should consider performing portfolio level stress tests of their CRE exposures to quantify the impact of changing economic scenarios on asset quality, earnings and capital."

Comment: We perform stress tests on our CRE loans, individually during the approval process, and review those stress tests during the semi-annual loan servicing. We believe generic layering of an additional stressed interest spread over our already stressed standard underwriting, customized to specific property types, borrower / guarantor quality, location, pre-leasing levels, etc., would not be meaningful or helpful in assisting our Bank in analyzing or quantifying portfolio risk levels. If all our real estate loans were underwritten to the same spread, amortization, debt service coverage minimums, leasing rate assumptions, and sponsorship quality, then perhaps a blanket stress testing model would provide some measure of analytical value, but even that result would be too generic and vague compared to our standard practice of underwriting to specific situations with built in "stress testing" measured against various quality guarantors, loan terms and covenants.

Thank you for allowing us to provide this input.

Sincerely,

Michael J. Willoughby

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MJW/lcb

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